

SANDUSKY COMMUNITY SCHOOLS

SANDUSKY, MICHIGAN

AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2006

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Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 9, 2006

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Sandusky Community Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sandusky Community Schools, as of and for the year ended June 30, 2006, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Sandusky Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Sandusky Community Schools as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report under separate cover dated August 9, 2006 on our consideration of the Sandusky Community Schools' internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information on pages II - VIII, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sandusky Community Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

SANDUSKY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Sandusky Community Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2006.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

SANDUSKY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

District Wide Financial Statements: (Continued)

These two statements report the Sandusky Community Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2006 and 2005:

	<u>NET ASSETS SUMMARY</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Current Assets	\$3,540,231	\$2,289,051
Non-Current Assets	<u>12,563,993</u>	<u>13,080,327</u>
<u>TOTAL ASSETS</u>	<u>\$16,104,224</u>	<u>\$15,369,378</u>
<u>LIABILITIES</u>		
Current Liabilities	\$3,115,889	\$1,497,713
Long-Term Liabilities	<u>11,219,453</u>	<u>12,010,280</u>
Total Liabilities	\$14,335,342	\$13,507,993
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	701,709	453,145
Restricted - Debt Retirement	337,078	272,114
Restricted - Capital Projects	0	18,740
Unrestricted	<u>730,095</u>	<u>1,117,386</u>
Total Net Assets	<u>\$1,768,882</u>	<u>\$1,861,385</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$16,104,224</u>	<u>\$15,369,378</u>

SANDUSKY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2006 and 2005, the District wide results of operations were:

	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$1,033,198	\$997,727
Property Taxes Levied for Debt Service	1,005,871	959,322
State of Michigan Unrestricted Foundation Aid	7,672,342	7,780,026
Other General Revenues	<u>152,267</u>	<u>83,803</u>
Total General Revenues	\$9,863,678	\$9,820,878
<u>Operating Grants:</u>		
Federal	721,134	693,576
State of Michigan	<u>676,869</u>	<u>690,216</u>
Total Operating Grants	\$1,398,003	\$1,383,792
<u>Charges for Services:</u>		
Food Service	246,217	245,958
Athletics	75,640	80,630
Other Charges for Services	<u>125,285</u>	<u>152,577</u>
Total Charges for Services	\$447,142	\$479,165
Total Revenues	\$11,708,823	\$11,683,835
<u>EXPENSES</u>		
Instruction & Instructional Support	6,562,599	6,641,243
Support Services	3,759,943	3,407,778
Community Services	9,130	18,797
Food Service	603,487	575,121
Athletics	184,220	154,993
Interest on Long-Term Debt	408,667	383,546
Depreciation	<u>273,280</u>	<u>270,505</u>
Total Expenses	\$11,801,326	\$11,451,983
<u>INCREASE (DECREASE) IN NET ASSETS</u>	(\$92,503)	\$231,852
<u>BEGINNING NET ASSETS</u>	<u>1,861,385</u>	<u>1,629,533</u>
<u>ENDING NET ASSETS</u>	<u><u>\$1,768,882</u></u>	<u><u>\$1,861,385</u></u>

SANDUSKY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2006, the District's Total Net Assets decreased by \$92,503 to a total of \$1,768,882. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$248,564 during the year due to purchases of new capital assets and principal payments on related debt exceeding depreciation. The District's unrestricted net assets decreased by \$387,291 during the year and the restricted portion of the net assets increased by \$46,224. The restricted net assets consist of restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall expenses exceeded its revenues for the year by \$92,503. The total revenues increased by \$14,988 over the prior year due to increases in property taxes. Expenditures increased by \$339,343 over prior year. Major changes were increases in salaries, benefits, and utilities.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Fund balance for the general fund decreased by \$309,655 during the year with the decrease coming primarily from a increase in cash. Revenues for the year decreased by \$10,967 over prior year primarily from decreases in state aid. Expenditures and other financing uses increased by \$421,638 over prior year primarily due to increase in salaries, benefits, and utilities. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 75 percent of current year's fall count and 25 percent of prior year's winter count
- c. The District's non-homestead tax levy

2. Per Student Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Sandusky Community Schools foundation allowance was \$6,875 per student for the 2005-2006 school year.

SANDUSKY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

3. Student Enrollment:

The District's student enrollment for state aid for 2005-2006 was 1,290 students. A decrease of 41 students from the prior year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2005-2006 fiscal year was \$1,048,140. An increase of \$50,413 from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Original & Final Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$9,989,645	\$10,013,120	\$10,037,876	0.23%	0.25
Expenditures	10,742,543	10,438,832	10,347,531	2.83%	0.87
<u>TOTAL</u>	<u>(\$752,898)</u>	<u>(\$425,712)</u>	<u>(\$309,655)</u>		

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Sandusky Community Schools amends its budget during the school year. The June, 2006 budget amendment was the final budget for the fiscal year. Significant variations between original and final budgets for revenues were due to interest rates and Federal Money. Significant variations between original and final budgets for expenditures were due to a high estimate for salaries and benefits on the original budget.

There were no significant variations between the final budget and actual results.

SANDUSKY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-05	Increases 6-30-06	Principal Payments 6-30-06	Principal Balance 6-30-06
General Obligation Bonds	\$12,527,424	\$0	\$730,123	\$11,797,301
Bus Notes Payable	13,699	0	13,699	0
Capital Leases	86,059	0	21,076	64,983
Sick Days Payable	147,996	0	1,442	146,554
<u>Total Long-Term Debt</u>	<u>\$12,775,178</u>	<u>\$0</u>	<u>\$766,340</u>	<u>\$12,008,838</u>

B. Capital Assets

The district's net investment in capital assets decreased by \$516,334 during the fiscal year. This can be summarized as follows:

	Balance 7-1-05	Additions	Deduction	Balance 6-30-06
Capital Assets	\$19,579,487	\$0	\$0	\$19,579,487
Less: Accumulated Depreciation	(6,499,160)	(516,334)	0	(7,015,494)
<u>Net Investment Capital Assets</u>	<u>\$13,080,327</u>	<u>(\$516,334)</u>	<u>\$0</u>	<u>\$12,563,993</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

* Foundation Allowance

The Board of Education and Administration agreed to an estimate of a foundation allowance of \$7,100.00 per pupil for the 06-07 fiscal year based on information received from various educational organizations such as Michigan Association of School Business Officials, Michigan Association of School Administrators, and the Michigan Association of School Boards as well as discussions local state representatives. The political debate regarding the funding of public education, the current economic climate in the State of Michigan and the gubernatorial election will all affect this estimate before the final foundation allowance is known.

* Retirement Rates

The continuing cost of health insurance to current and potential retirees continues to drive the rate increases the Michigan School Personnel Retirement System recommends to the legislature for approval. The rate is anticipated to increase to 17.74% in 06-07 from 16.34% in 05-06.

* The Sandusky Community Schools 2006/2007 adopted budget is as follows:

<u>REVENUE</u>	\$10,071,347
<u>EXPENDITURES</u>	<u>10,333,885</u>
<u>NET (UNDER) BUDGET</u>	<u>(\$262,537)</u>

SANDUSKY COMMUNITY SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Sandusky Community Schools.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

	<u>Governmental Activities</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash and Cash Equivalents	\$2,001,042
Accounts Receivable	3,056
Due from Other Governmental Units	1,520,452
Due from Internal Accounts	14,211
Inventory	1,470
Total Current Assets	<u>\$3,540,231</u>
<u>NON-CURRENT ASSETS</u>	
Capital Assets	19,579,487
Less: Accumulated Depreciation	<u>(7,015,494)</u>
Total Noncurrent Assets	<u>\$12,563,993</u>
<u>TOTAL ASSETS</u>	\$16,104,224
<u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Accounts Payable	61,613
State Aid Anticipation Note Payable	1,500,000
Salaries Payable	547,979
Accrued Expenses	216,912
Current Portion of Long-Term Obligations	789,385
Total Current Liabilities	<u>\$3,115,889</u>
<u>NON-CURRENT LIABILITIES</u>	
Noncurrent Portion of Long-Term Obligations	<u>11,219,453</u>
<u>TOTAL LIABILITIES</u>	\$14,335,342
<u>NET ASSETS</u>	
<u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	701,709
Restricted for:	
Debt Retirement	337,078
Unrestricted	<u>730,095</u>
<u>TOTAL NET ASSETS</u>	<u>\$1,768,882</u>

See accompanying notes to the basic financial statements.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue & Change in Net Assets</u>
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities:				
Instruction	\$6,562,599	\$0	\$1,014,773	(\$5,547,826)
Support Services	3,759,943	123,498	26,233	(3,610,212)
Community Services	9,130	1,787	0	(7,343)
Food Service	603,487	246,217	356,997	(273)
Athletics	184,220	75,640	0	(108,580)
Interest - Long-Term Obligations	408,667	0	0	(408,667)
Depreciation - Unallocated	273,280	0	0	(273,280)
<u>TOTALS</u>	<u>\$11,801,326</u>	<u>\$447,142</u>	<u>\$1,398,003</u>	<u>(\$9,956,181)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				2,039,069
State Aid				7,672,342
Investment Earnings				81,429
Miscellaneous				70,838
Total General Revenues and Transfers				<u>\$9,863,678</u>
Change in Net Assets				(\$92,503)
Net Assets - Beginning - As Restated				<u>1,861,385</u>
<u>Net Assets - Ending</u>				<u>\$1,768,882</u>

See accompanying notes to the basic financial statements.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$1,576,254	\$424,788	\$2,001,042
Accounts Receivable	781	2,275	3,056
Due from Other Funds	15,024	4,464	19,488
Due from Other Governmental Units	1,519,559	893	1,520,452
Inventory	0	1,470	1,470
<u>TOTAL ASSETS</u>	<u>\$3,111,618</u>	<u>\$433,890</u>	<u>\$3,545,508</u>
<u>LIABILITIES</u>			
Accounts Payable	\$61,613	\$0	\$61,613
State Aid Note	1,500,000	0	1,500,000
Due to Other Funds	4,464	813	5,277
Salaries Payable	547,979	0	547,979
Accrued Expenses	141,921	0	141,921
Total Liabilities	\$2,255,977	\$813	\$2,256,790
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	0	1,470	1,470
Debt Retirement	0	337,078	337,078
Unreserved:			
Undesignated, Reported In:			
General Fund	855,641	0	855,641
School Service Funds	0	94,529	94,529
Total Fund Balances	\$855,641	\$433,077	\$1,288,718
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$3,111,618</u>	<u>\$433,890</u>	<u>\$3,545,508</u>

See accompanying notes to the basic financial statements.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
AS OF JUNE 30, 2006

Total Governmental Fund Balances:	\$1,288,718
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$19,579,487 and the accumulated depreciation is \$7,015,494	12,563,993
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Accrued Interest on Long-Term Debt	(74,991)
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Long-term liabilities, including bonds payable, are not due and
payable in the current period and therefore are not reported as
liabilities in the funds. Long-term liabilities at year end consist of:

Bonds Payable	\$11,797,301	
Operating Leases	64,983	
Compensated Absences Payable	146,554	
Total Long-Term Liabilities	<u> </u>	<u>(12,008,838)</u>

<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>	<u>\$1,768,882</u>
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SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>			
Local Sources	\$1,260,350	\$1,378,128	\$2,638,478
State Sources	8,291,719	57,492	8,349,211
Federal Sources	410,807	310,327	721,134
Total Revenues	<u>\$9,962,876</u>	<u>\$1,745,947</u>	<u>\$11,708,823</u>
<u>EXPENDITURES</u>			
Current:			
Instruction	6,517,960	0	6,517,960
Student Services	566,267	0	566,267
Instructional Support	180,569	0	180,569
General Administration	218,065	0	218,065
School Administration	491,572	0	491,572
Business Administration	201,368	0	201,368
Operation & Maintenance	1,166,487	0	1,166,487
Transportation	701,797	0	701,797
Other Support Services	31,993	0	31,993
Community Services	9,130	0	9,130
Food Service	0	782,973	782,973
Debt Service	0	991,720	991,720
Capital Outlay	0	18,888	18,888
Total Expenditures	<u>\$10,085,208</u>	<u>\$1,793,581</u>	<u>\$11,878,789</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(\$122,332)	(\$47,634)	(\$169,966)
<u>OTHER FINANCING SOURCES (USES)</u>			
Other Transactions	(163,136)	0	(163,136)
Transfers to Other Funds (Net)	(24,187)	24,187	0
Total Other Financing Sources (Uses)	<u>(\$187,323)</u>	<u>\$24,187</u>	<u>(\$163,136)</u>
Net Change in Fund Balance	(\$309,655)	(\$23,447)	(\$333,102)
<u>FUND BALANCE - BEGINNING</u>	<u>1,165,296</u>	<u>456,524</u>	<u>1,621,820</u>
<u>FUND BALANCE - ENDING</u>	<u>\$855,641</u>	<u>\$433,077</u>	<u>\$1,288,718</u>

See accompanying notes to the basic financial statements.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Total net change in fund balances - governmental funds	(\$333,102)
--	-------------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(516,334)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.

Bond, Operating Lease and Note Payments	764,898
---	---------

Change in accrued interest on long-term liabilities	(9,407)
---	---------

Decrease in accrued compensated absences	<u>1,442</u>
--	--------------

<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>(\$92,503)</u></u>
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SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
AS OF JUNE 30, 2006

	Trust & Agency
<u>ASSETS</u>	
Cash and Cash Equivalents	<u>\$110,408</u>
<u>TOTAL ASSETS</u>	<u>\$110,408</u>
 <u>LIABILITIES</u>	
Due to Other Funds	\$14,211
Due to Student Groups	<u>96,197</u>
 <u>TOTAL LIABILITIES</u>	 <u>\$110,408</u>

See accompanying notes to the basic financial statements.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2006

	Budgeted Amounts			Variance With
	Original	Final	Actual	Final Budget
REVENUES				
Local Sources	\$1,121,103	\$1,280,271	\$1,260,350	(\$19,921)
State Sources	8,424,362	8,250,727	8,291,719	40,992
Federal Sources	369,180	407,121	410,807	3,686
Total Revenues	\$9,914,645	\$9,938,119	\$9,962,876	\$24,757
EXPENDITURES				
Current:				
Instruction	6,934,339	6,558,025	6,517,960	40,065
Student Services	570,626	569,179	566,267	2,912
Instructional Support	209,940	181,879	180,569	1,310
General Administration	265,501	224,394	218,065	6,329
School Administration	511,669	496,160	491,572	4,588
Business Administration	215,058	201,154	201,368	(214)
Operation & Maintenance of Plant	1,088,583	1,180,417	1,166,487	13,930
Transportation	682,870	714,761	701,797	12,964
Other Support Services	34,190	40,666	31,993	8,673
Community Services	16,943	9,060	9,130	(70)
Total Expenditures	\$10,529,719	\$10,175,695	\$10,085,208	\$90,487
Excess of Revenues Over Expenditures	(\$615,074)	(\$237,576)	(\$122,332)	\$115,244
OTHER FINANCING SOURCES (USES)				
Other Transactions	(162,824)	(163,136)	(163,136)	0
Transfers to Other Funds	25,000	(25,000)	(24,187)	813
Total Other Financing Sources (Uses)	(\$137,824)	(\$188,136)	(\$187,323)	\$813
Net Change in Fund Balance	(\$752,898)	(\$425,712)	(\$309,655)	\$116,057
FUND BALANCE - BEGINNING			1,165,296	
FUND BALANCE - ENDING			\$855,641	

See accompanying notes to the basic financial statements.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Sandusky Community Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition and construction of major facilities by the School District.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

Cash and cash equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	Governmental Activities
	<u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

1968 PA 2 provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2006, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

As of June 30, 2006, the District had no investments.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2006, the District's investment in the investment pool was rated AAA by Standards & Poor's and AAA by Moody's Investors Service.

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2006, \$2,011,432 of the District's bank balance of \$2,524,249 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

4) DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments which have this type of risk.

The above amounts as previously report in Note 4:

Deposits – Including Fiduciary Funds of \$110,408	\$ 2,111,450
Investments	<u>0</u>
<u>TOTAL</u>	<u>\$ 2,111,450</u>

The above amounts are reported in the financial statements as follows:

Cash – Agency Fund	\$ 110,408
Cash – District Wide	2,001,042
Investments – District Wide	<u>0</u>
<u>TOTAL</u>	<u>\$ 2,111,450</u>

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2006, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 1,515,427
Other Grant Programs & Fees	<u>5,025</u>
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 1,520,452</u>

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2006, the School District had \$11,975 in estimated claims in conjunction with the program.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

8) SHORT-TERM DEBT

The District borrowed \$1,500,000 at 2.92% interest per annum on August 19, 2005, from Chase Bank on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The note matures August 16, 2006. The balance as of June 30, 2006 was \$1,500,000.

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>State Aid Note</u>	\$0	\$1,500,000	\$0	\$1,500,000

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$17,667,298	\$0	\$0	\$17,667,298
Land Improvements	628,021	0	0	628,021
Equipment and Furniture	234,992	0	0	234,992
Vehicles	1,049,176	0	0	1,049,176
Totals at Historical Cost	\$19,579,487	\$0	\$0	\$19,579,487
Less: Accumulated Depreciation				
Buildings and Improvements	(5,377,994)	(397,324)	0	(5,775,318)
Land Improvements	(325,249)	(17,920)	0	(343,169)
Equipment and Furniture	(199,892)	(8,908)	0	(208,800)
Vehicles	(596,025)	(92,182)	0	(688,207)
Total Accumulated Depreciation	(\$6,499,160)	(\$516,334)	\$0	(\$7,015,494)
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	\$13,080,327	(\$516,334)	\$0	\$12,563,993

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 44,639
Support Services	193,681
Athletics	4,734
Unallocated	273,280
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 516,334</u>

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2006 were \$116,780 and the School District received a dividend refund of \$28,319.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

11) GENERAL LONG-TERM DEBT

A) General Obligation Bonds Payable

2000 School Building and Site Bonds

Sandusky Community Schools has issued General Obligation Bonds dated July 26, 2000, in the amount of \$2,065,000, bearing interest at rates varying from 5.00% to 5.50% per annum. These bonds were issued for the purpose of erecting, furnishing and equipping additions to Maple Valley Elementary and developing and improving athletic fields and facilities, parking improvements and sites. The balance of the bonds as of June 30, 2006 was \$1,815,000.

2001 Energy Conservation Improvement Bonds (General Obligation – Limited Tax) Qualified Zone Academy Bonds

Sandusky Community Schools issued 2001 Energy Conservation Improvement Bonds dated June 1, 2001, in the amount of \$1,789,620 at 100% of par and accrued interest to the date of delivery, maturing on June 1 of each year. The balance as of June 30, 2006 was \$1,101,305.

2004 Refunding Bonds (General Obligation – Unlimited Tax)

The Bonds are being issued for the purpose of refunding all of the District's outstanding 1994 Bonds, dated January 12, 1994, which are due and payable May 1, 2005 through May 1, 2021, inclusive, (the "Prior Bonds") and to pay the costs of issuing the Bonds. The bonds were issued January 21, 2004 in the amount of \$9,845,000 bearing interest at rates varying from 2.000% to 4.125% per annum. The balance of the bonds as of June 30, 2006 was \$8,790,000.

B) 1998 Durant Resolution Bonds

Sandusky Community Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$154,111 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2006 was \$90,996.

C) Bus Notes Payable

Sandusky Community Schools is indebted to Bank One, Sandusky for the purchase of buses. The note is dated September 25, 2001 in the amount of \$200,000, with an interest rate of 3.74% per annum, requires monthly payments of \$4,493 including interest commencing November 1, 2001. The note was paid in full during the year ended June 30, 2006.

D) Capital Leases

Sandusky Community Schools entered into a lease agreement with the Kansas State Bank of Manhattan for the lease of Lanier copiers as follows:

<u>LEASE DATE</u>	<u>COPIER MODEL</u>	<u>LEASE TERM</u>	<u>INTEREST RATE</u>	<u>MONTHLY PAYMENT</u>
August, 2004	5255	60 Months	6.45%	\$ 2,512.84

The following is an analysis of the leased property under capital lease by class: Office Equipment

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

11) GENERAL LONG-TERM DEBT (Continued)

E) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2006 are as follows:

	<u>Bonds Payable</u>	<u>Capital Leases</u>	<u>Interest</u>	<u>Total</u>
June 30, 2007	\$768,309	\$21,076	\$395,657	\$1,185,042
June 30, 2008	755,850	21,076	369,470	1,146,396
June 30, 2009	771,240	21,076	355,162	1,147,478
June 30, 2010	786,647	1,755	339,510	1,127,912
June 30, 2011	807,076	0	324,359	1,131,435
June 30, 2012-2016	4,098,179	0	1,254,635	5,352,814
June 30, 2017-2021	3,810,000	0	498,612	4,308,612
<u>TOTAL</u>	<u>\$11,797,301</u>	<u>\$64,983</u>	<u>\$3,537,405</u>	<u>\$15,399,689</u>

The payment dates of sick days payable are undeterminable. Interest paid for the year on long-term obligations was \$384,068.

F) Changes in General Long-Term Debt

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006	Amount Due in One Year
<u>Governmental Activities:</u>					
General Obligation & Durant					
Bonds	\$12,527,424	\$0	\$730,123	\$11,797,301	\$768,309
Bus Notes Payable	13,699	0	13,699	0	0
Capital Leases	86,059	0	21,076	64,983	21,076
Compensated Absences	147,996	0	1,442	146,554	0
<u>Total Governmental Activities</u>	<u>\$12,775,178</u>	<u>\$0</u>	<u>\$766,340</u>	<u>\$12,008,838</u>	<u>\$789,385</u>

12) OPERATING LEASES

Sandusky Community Schools has entered into the following operating leases summarized below:

Operating Lease as Lessor

The District entered into a lease with the Sanilac Intermediate School District Special Education Consortium for the purpose of leasing a building under construction at the Sandusky Middle School. The lease dated June 16, 1993 began on July 1, 1993 with occupancy occurring on or about August 23, 1993 and extends for fifteen years. Lease payments totaling \$140,000 were paid at the inception of the lease. The purpose of the lease is to allow the consortium to provide special education services and other related services. The lessor is responsible for all utilities and property and casualty insurance.

The District entered into a lease with Wells Fargo Financial Leasing for the purpose of leasing 11 digital copiers. The lease is for 60 months and requires monthly payments of \$1,756.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

13) INTERFUND BALANCES

Interfund balances at June 30, 2006 consisted of the following:

DUE TO	DUE FROM		
	General Fund	Food Service	Total
Trust & Agency Fund	\$14,211	\$0	\$14,211
General Fund	0	4,464	4,464
Athletics	813	0	813
<u>TOTAL</u>	<u>\$15,024</u>	<u>\$4,464</u>	<u>\$19,488</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

14) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2006, consisted of the following:

TRANSFERS TO	TRANSFERS FROM		
	General Fund	Food Service Fund	Total
General Fund	\$0	\$75,000	\$75,000
Athletics Fund	99,187	0	99,187
<u>TOTAL</u>	<u>\$99,187</u>	<u>\$75,000</u>	<u>\$174,187</u>

These transfers were made to subsidize the cost of services for athletics.

15) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

15) DEFINED BENEFIT PENSION PLAN (Continued)

Funding Policy

Employer contributions to the MPSERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 14.87 percent for the period July 1, 2005 through September 30, 2005 and 16.34 percent for the period October 1, 2005 through June 30, 2006 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPSERS pension plan for the years ended June 30, 2006, 2005 and 2004 were \$879,818, \$814,901 and \$797,236, respectively.

Postemployment Benefits

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPSERS pension plan discussed above.

16) RISK MANAGEMENT

The District is exposed to various risks of losses in conducting its operations, from property and casualty, theft, damages to various tort and liability claims, and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

17) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs, principal of which is the Title I Grant. This program is subject to program compliance audits. The audit of this program for and including the year ended June 30, 2006, have been conducted and have been reported in this audit report. However, the compliance audit report has not yet been accepted by the grantor. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

18) SUBSEQUENT EVENT

The District borrowed \$1,500,000 at 3.68% interest per annum on August 18, 2006, from Chase Bank on a State Aid Anticipation Note Chase to meet cash flow needs for the 2006-2007 fiscal year.

OTHER SUPPLEMENTAL
INFORMATION

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2006

	School Service Funds	2001 Capital Projects Fund	Debt Service Funds	Total Other Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$87,710	\$0	\$337,078	\$424,788
Accounts Receivable	2,275	0	0	2,275
Due from Other Funds	4,464	0	0	4,464
Due from Other Governmental Units	893	0	0	893
Inventory	1,470	0	0	1,470
<u>TOTAL ASSETS</u>	<u>\$96,812</u>	<u>\$0</u>	<u>\$337,078</u>	<u>\$433,890</u>
<u>LIABILITIES</u>				
Due to Other Funds	\$813	\$0	\$0	\$813
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	1,470	0	0	1,470
Debt Retirement	0	0	337,078	337,078
Unreserved:				
Undesignated, Reported In:				
School Service Fund	94,529	0	0	94,529
Total Fund Balances	<u>\$95,999</u>	<u>\$0</u>	<u>\$337,078</u>	<u>\$433,077</u>
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$96,812</u>	<u>\$0</u>	<u>\$337,078</u>	<u>\$433,890</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	School Service Funds	2001 Capital Projects Fund	Debt Service Funds	Total Other Governmental Funds
<u>REVENUES</u>				
Local Sources	\$332,118	\$148	\$1,045,862	\$1,378,128
State Sources	46,670	0	10,822	57,492
Federal Sources	310,327	0	0	310,327
Total Revenues	\$689,115	\$148	\$1,056,684	\$1,745,947
<u>OTHER FINANCING SOURCES (USES)</u>	24,187	0	0	24,187
Total Revenues & Other Financing Sources	\$713,302	\$148	\$1,056,684	\$1,770,134
<u>EXPENDITURES</u>				
Food Service	782,973	0	0	782,973
Debt Service	0	0	991,720	991,720
Capital Outlay	0	18,888	0	18,888
Total Expenditures	\$782,973	\$18,888	\$991,720	\$1,793,581
Net Change in Fund Balance	(\$69,671)	(\$18,740)	\$64,964	(\$23,447)
<u>NET ASSETS - BEGINNING</u>	165,670	18,740	272,114	456,524
<u>NET ASSETS - ENDING</u>	\$95,999	\$0	\$337,078	\$433,077

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
SCHOOL SERVICE FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2006

	Food Services	Athletic Activities	Total
<u>ASSETS</u>			
Cash and Cash Equivalents	\$86,897	\$813	\$87,710
Accounts Receivable	2,275	0	2,275
Due from Other Funds	4,464	0	4,464
Due from Other Governmental Units	893	0	893
Inventory	1,470	0	1,470
<u>TOTAL ASSETS</u>	<u>\$95,999</u>	<u>\$813</u>	<u>\$96,812</u>
<u>LIABILITIES</u>			
Due to Other Funds	\$0	\$813	\$813
<u>FUND EQUITY</u>			
Fund Balance - Reserved for Inventory	1,470	0	1,470
Fund Balance - Unreserved and Undesignated	94,529	0	94,529
Total Fund Equity	<u>\$95,999</u>	<u>\$0</u>	<u>\$95,999</u>
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$95,999</u>	<u>\$813</u>	<u>\$96,812</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
SCHOOL SERVICE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Food Services</u>	<u>Athletic Activities</u>	<u>Total</u>
<u>REVENUES</u>			
<u>Local Sources</u>			
Cafeteria Sales	\$246,217	\$0	\$246,217
Earnings on Investments and Deposits	3,609	135	3,744
Other Income	4,268	2,249	6,517
Athletic Activities	0	75,640	75,640
Total Local Sources	<u>\$254,094</u>	<u>\$78,024</u>	<u>\$332,118</u>
<u>State Sources</u>			
State Reimbursements	46,670	0	46,670
<u>Federal Sources</u>			
Federal Reimbursements	279,511	0	279,511
Commodities	27,639	0	27,639
Headstart	3,177	0	3,177
Total Federal Sources	<u>\$310,327</u>	<u>\$0</u>	<u>\$310,327</u>
Total Revenues	<u>\$611,091</u>	<u>\$78,024</u>	<u>\$689,115</u>
<u>OTHER FINANCING SOURCES</u>			
Transfers from General Fund	0	99,187	99,187
Total Revenues and Other Financing Sources	<u>\$611,091</u>	<u>\$177,211</u>	<u>\$788,302</u>
<u>EXPENDITURES</u>			
Salaries - Non-Professional	117,708	111,976	229,684
Insurances	81,743	0	81,743
Fica, Retirement, Etc.	28,357	22,331	50,688
Purchased Services	83,016	22,263	105,279
Supplies and Materials	288,576	16,460	305,036
Capital Outlay	3,604	0	3,604
Other	483	6,456	6,939
Total Expenditures	<u>\$603,487</u>	<u>\$179,486</u>	<u>\$782,973</u>
<u>OTHER FINANCING USES</u>			
Transfers to General Fund	75,000	0	75,000
Total Expenditures and Other Financing Uses	<u>\$678,487</u>	<u>\$179,486</u>	<u>\$857,973</u>
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</u>	<u>(\$67,396)</u>	<u>(\$2,275)</u>	<u>(\$69,671)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$163,395</u>	<u>\$2,275</u>	<u>\$165,670</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$95,999</u>	<u>\$0</u>	<u>\$95,999</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
DEBT RETIREMENT FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2006

	BOND ISSUE DATE			Total
	1998 Durant	2000	2004	
<u>ASSETS</u>				
Cash and Cash Equivalents	\$0	\$64,620	\$272,458	\$337,078
<u>TOTAL ASSETS</u>	<u>\$0</u>	<u>\$64,620</u>	<u>\$272,458</u>	<u>\$337,078</u>
<u>FUND EQUITY</u>				
Fund Balance - Reserved - Debt Retirement	\$0	\$64,620	\$272,458	\$337,078
<u>TOTAL FUND EQUITY</u>	<u>\$0</u>	<u>\$64,620</u>	<u>\$272,458</u>	<u>\$337,078</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
DEBT RETIREMENT FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006

	BOND ISSUE DATE			
	1998 Durant	2000	2004	Total
<u>REVENUES</u>				
<u>Local Sources</u>				
Property Tax Levy	\$0	\$143,744	\$862,127	\$1,005,871
Earnings - Investments & Deposits	0	2,900	13,671	16,571
Miscellaneous	0	0	23,420	23,420
Total Local Sources	\$0	\$146,644	\$899,218	\$1,045,862
<u>State Sources</u>	10,822	0	0	10,822
Total Revenues	\$10,822	\$146,644	\$899,218	\$1,056,684
<u>EXPENDITURES</u>				
Redemption of Bond Principal	7,460	50,000	535,000	592,460
Interest on Bonded Debt	3,362	99,663	293,773	396,798
Dues and Fees	0	462	2,000	2,462
Total Expenditures	\$10,822	\$150,125	\$830,773	\$991,720
<u>EXCESS REVENUES AND OTHER FINANCING</u> <u>SOURCES OVER (UNDER) EXPENDITURES</u>	\$0	(\$3,481)	\$68,445	\$64,964
<u>FUND BALANCE - BEGINNING OF YEAR</u>	\$0	\$68,101	\$204,013	\$272,114
<u>FUND BALANCE - END OF YEAR</u>	\$0	\$64,620	\$272,458	\$337,078

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2006

REVENUES FROM
Local Sources

Property Tax Levy	\$1,033,198
Earnings on Investments and Deposits	60,966
Rentals	38,962
Transportation Fees	84,176
Other Local Revenues	43,048
Total Revenues from Local Sources	<u>\$1,260,350</u>

State Sources

State Aid - Membership	7,672,342
Special Education - Headlee	224,709
At Risk	260,262
Michigan School Readiness	118,800
Durant	15,411
Other State Grants	195
Total Revenues from State Sources	<u>\$8,291,719</u>

Federal Sources

Title I	232,719
Title V	4,350
Improving Teacher Quality	74,003
IDEA Flowthrough	60,000
Career Prep	400
Drug Free Schools and Communities	3,899
Headstart	22,344
Technology Literacy	4,406
Homeland Security	8,686
Total Revenues from Federal Sources	<u>\$410,807</u>
Total Revenues	<u>\$9,962,876</u>

OTHER FINANCING SOURCES

Transfers from Other Funds	<u>75,000</u>
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TOTAL REVENUES

\$10,037,876

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTIONBASIC PROGRAMSElementary

Salaries - Professional	\$1,237,705
Salaries - Non-Professional	54,770
Insurances	314,866
Fica, Retirement, Etc.	306,966
Purchased Services	8,961
Supplies and Materials	29,630
Capital Outlay	3,485
Other	3,082
Total Elementary	<u>\$1,959,465</u>

Middle School

Salaries - Professional	967,391
Salaries - Non-Professional	16,998
Insurances	242,403
Fica, Retirement, Etc.	232,124
Purchased Services	10,203
Supplies and Materials	17,267
Capital Outlay	266
Other	3,504
Total Middle School	<u>\$1,490,156</u>

High School

Salaries - Professional	1,081,618
Salaries - Non-Professional	23,514
Insurances	274,294
Fica, Retirement, Etc.	259,273
Purchased Services	35,070
Supplies and Materials	43,584
Capital Outlay	3,275
Other	2,797
Total High School	<u>\$1,723,425</u>

Pre-School Program - Elementary

Salaries - Professional	77,705
Salaries - Non-Professional	23,681
Insurances	24,976
Fica, Retirement, Etc.	23,335
Purchased Services	1,377
Supplies and Materials	1,151
Total Pre-School Program - Elementary	<u>\$152,225</u>

Total Basic Instruction	\$5,325,271
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SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

INSTRUCTION (Continued)ADDED NEEDSSPECIAL EDUCATION

Salaries - Professional	\$344,661
Salaries - Non-Professional	65,824
Insurances	157,555
Fica, Retirement, Etc.	95,850
Purchased Services	15,481
Supplies and Materials	2,102
Capital Outlay	2,587
Total Special Education	<u>\$684,060</u>

COMPENSATORY EDUCATION

Salaries - Professional	59,146
Salaries - Non-Professional	177,796
Insurances	211,181
Fica, Retirement, Etc.	56,427
Purchased Services	293
Supplies and Materials	3,386
Total Compensatory Education	<u>\$508,229</u>

VOCATIONAL EDUCATION

Supplies and Materials	<u>400</u>
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Total Added Needs	<u>\$1,192,689</u>
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<u>Total Instruction</u>	\$6,517,960
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SUPPORT SERVICESSTUDENT SERVICES

Salaries - Professional	344,196
Salaries - Non-Professional	23,399
Insurances	95,204
Fica, Retirement, Etc.	87,451
Purchased Services	10,227
Supplies and Materials	5,790
Total Student Services	<u>\$566,267</u>

INSTRUCTIONAL SUPPORT

Salaries - Professional	33,737
Salaries - Non-Professional	46,147
Insurances	56,194
Fica, Retirement, Etc.	18,986
Purchased Services	7,870
Supplies and Materials	17,565
Capital Outlay	70
Total Instructional Support	<u>\$180,569</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

SUPPORT SERVICES (Continued)

GENERAL ADMINISTRATION

Salaries - Professional	\$111,502
Insurances	15,599
Fica, Retirement, Etc.	45,158
Purchased Services	35,898
Supplies and Materials	4,597
Other	5,311
Total General Administration	<u>\$218,065</u>

SCHOOL ADMINISTRATION

Salaries - Professional	87,115
Salaries - Non-Professional	88,546
Insurances	58,961
Fica, Retirement, Etc.	40,341
Purchased Services	207,375
Supplies and Materials	6,867
Other	2,367
Total School Administration	<u>\$491,572</u>

BUSINESS ADMINISTRATION

Salaries - Non-Professional	21,132
Insurances	8,614
Fica, Retirement, Etc.	4,932
Purchased Services	102,482
Supplies and Materials	8,368
Other	55,840
Total Business Administration	<u>\$201,368</u>

OPERATION AND MAINTENANCE

Salaries - Professional	45,863
Salaries - Non-Professional	249,251
Insurances	144,833
Fica, Retirement, Etc.	74,179
Purchased Services	171,355
Supplies and Materials	461,071
Capital Outlay	19,935
Total Operation and Maintenance	<u>\$1,166,487</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2006

SUPPORT SERVICES (Continued)TRANSPORTATION

Salaries - Professional	\$39,362
Salaries - Non-Professional	267,709
Insurances	145,422
Fica, Retirement, Etc.	73,266
Other Benefits	1,107
Purchased Services	20,391
Supplies and Materials	153,864
Other	676
Total Transportation	<u>\$701,797</u>

OTHER SUPPORT SERVICES

Salaries - Non-Professional	16,803
Fica, Retirement, Etc.	4,170
Purchased Services	1,078
Supplies and Materials	8,880
Capital Outlay	1,062
Total Other Support Services	<u>\$31,993</u>

Total Support Services \$3,558,118

COMMUNITY SERVICES

Salaries - Professional	1,093
Salaries - Non-Professional	5,748
Fica, Retirement, Etc.	1,624
Purchased Services	449
Supplies and Materials	216
Total Community Services	<u>\$9,130</u>

TOTAL EXPENDITURES \$10,085,208

OTHER FINANCING USES

Transfers to Other Funds	99,187
Purchase of Land	11,683
Payments on Loans	151,453
Total Other Financing Uses	<u>\$262,323</u>

TOTAL EXPENDITURES AND OTHER
FINANCING USES

\$10,347,531

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2006

Student Groups	Due to (From) Student Groups July 1, 2005	Receipts	Disbursements	Due to (From) Student Groups June 30, 2006
Academic Games	\$109	\$0	\$0	\$109
AP Social Studies	6	0	6	0
Art Fund	2,571	2,831	3,108	2,294
Band	1,516	4,091	4,415	1,192
Baseball	118	95	0	213
Basketball	2,253	7,534	6,591	3,196
Brick Garden Fund	1,693	280	56	1,917
Cheerleaders	1,781	4,142	3,065	2,858
Class of 2005	592	0	592	0
Class of 2006	1,664	1,827	3,491	0
Class of 2007	1,879	6,569	7,175	1,273
Class of 2008	1,252	600	122	1,730
Class of 2009	80	940	104	916
Drama Fund	6,047	2,115	2,787	5,375
Elementary Fund	22,696	39,269	44,002	17,963
Equestrian Team	185	957	981	161
Football	944	19,221	19,954	211
Girls Basketball	1,911	7,398	8,049	1,260
Girls Soccer Club	323	0	188	135
Golden Apple	15,948	6,440	16,828	5,560
HS Fund	1,895	134	778	1,251
HS Gift Fund	156	660	564	252
HS Pop Fund	3,524	6,271	6,336	3,459
HS Student Council	866	1,542	1,499	909
JRN Scholarship Fund	1,734	600	600	1,734
Latchkey	0	1,864	1,676	188
Library	3,830	1,805	0	5,635
M.V. Accelerated Reading	121	500	387	234
M.V. Fourth Grade	3,522	15,212	15,508	3,226
M.V. Library	1,201	3,648	4,849	0
M.V. Music Program	358	432	596	194
MS Activities	234	280	126	388
MS Builders Club	217	325	300	242
MS Drama Club	240	1,876	1,790	326
MS Fund	7,225	9,623	8,875	7,973
MS Library	1,878	6,833	6,379	2,332
MS Quiz Bowl	485	160	176	469
MS Science Olympiad	16	964	610	370
MS Social Studies Olympics	423	185	219	389

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN

TRUST AND AGENCY FUND

SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 2006

Student Groups	Due to (From) Student Groups July 1, 2005	Receipts	Disbursements	Due to (From) Student Groups June 30, 2006
MS Student Council	\$1,358	\$5,500	\$5,118	\$1,740
MS Tech Committee	2,113	230	45	2,298
MS Technology	473	430	0	903
MS Travel Club	2,455	10,906	8,917	4,444
National Honor Society	450	2,640	2,853	237
National Jr. Honor Society	381	1,339	1,030	690
Project Graduation	257	5,204	5,441	20
Public Improvement	0	300	0	300
R.A.I.D.	2,839	3,001	3,246	2,594
Ski Club	4,249	7,098	9,767	1,580
Soccer	54	350	35	369
Softball	80	1,545	1,616	9
Spanish Club	60	0	0	60
Special Education Club	599	458	0	1,057
Tennis	473	3,415	3,797	91
Volleyball	233	6,879	7,090	22
Woodshop Club	454	2,252	1,899	807
Wrestling	1,720	145	469	1,396
Yearbook	0	21,447	19,801	1,646
<u>TOTALS</u>	<u>\$109,741</u>	<u>\$230,362</u>	<u>\$243,906</u>	<u>\$96,197</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
GENERAL OBLIGATION SERIAL BONDS
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2006

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$154,111

1998 DURANT RESOLUTION BONDS

<u>PAYMENT DATE - MAY 15TH</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL FISCAL YEAR REQUIREMENTS</u>
2007	\$35,646	4.761353%	\$15,422	\$51,068
2008	8,187	4.761353%	2,635	10,822
2009	8,577	4.761353%	2,246	10,823
2010	8,984	4.761353%	1,837	10,821
2011	9,413	4.761353%	1,409	10,822
2012	9,860	4.761353%	961	10,821
2013	10,329	4.761353%	492	10,821
<u>TOTAL</u>	<u>\$90,996</u>		<u>\$25,002</u>	<u>\$115,998</u>

DATE OF ISSUE - July 26, 2000

Original amount of issue - \$2,065,000

GENERAL OBLIGATION - 2000 SCHOOL BUILDING AND SITE BONDS

<u>PAYMENT DATE MAY 15TH</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL AMOUNT</u>	<u>INTEREST AMOUNT NOVEMBER 1</u>	<u>INTEREST AMOUNT MAY 1</u>	<u>TOTAL</u>
2006-2007	5.000%	\$50,000	\$48,581	\$48,581	\$147,162
2007-2008	5.125%	55,000	47,331	47,331	149,662
2008-2009	5.125%	65,000	45,922	45,922	156,844
2009-2010	5.200%	70,000	44,256	44,256	158,512
2010-2011	5.200%	80,000	42,436	42,436	164,872
2011-2012	5.200%	85,000	40,356	40,356	165,712
2012-2013	5.200%	100,000	38,146	38,146	176,292
2013-2014	5.300%	120,000	35,546	35,546	191,092
2014-2015	5.300%	140,000	32,366	32,366	204,732
2015-2016	5.375%	175,000	28,656	28,656	232,312
2016-2017	5.750%	175,000	23,953	23,953	222,906
2017-2018	5.500%	175,000	19,250	19,250	213,500
2018-2019	5.500%	175,000	14,438	14,438	203,876
2019-2020	5.500%	175,000	9,625	9,625	194,250
2020-2021	5.500%	175,000	4,812	4,812	184,624
<u>TOTAL</u>		<u>\$1,815,000</u>	<u>\$475,674</u>	<u>\$475,674</u>	<u>\$2,766,348</u>

SANDUSKY COMMUNITY SCHOOLS - SANDUSKY, MICHIGAN
GENERAL OBLIGATION SERIAL BONDS
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2006

DATE OF ISSUE - June 1, 2001

Original amount of issue - \$1,789,620

2001 ENERGY CONSERVATION IMPROVEMENT BONDS (GENERAL OBLIGATION - LIMITED TAX)

PAYMENT DATE JUNE 1ST	INTEREST RATE	PRINCIPAL AMOUNT
2007	0.00%	\$137,663
2008	0.00%	137,663
2009	0.00%	137,663
2010	0.00%	137,663
2011	0.00%	137,663
2012	0.00%	137,663
2013	0.00%	137,663
2014	0.00%	137,664
<u>TOTAL</u>		<u>\$1,101,305</u>

DATE OF ISSUE - January 21, 2004

Original amount of issue - \$9,845,000

2004 REFUNDING BONDS (GENERAL OBLIGATION - UNLIMITED TAX)

PAYMENT DATE	RATE	PRINCIPAL REQUIREMENT	INTEREST AMOUNT NOVEMBER 1	INTEREST AMOUNT MAY 1	TOTAL REQUIREMENT
2006-2007	2.000%	\$545,000	\$141,536	\$141,536	\$828,072
2007-2008	2.000%	555,000	136,086	136,086	827,172
2008-2009	2.200%	560,000	130,536	130,536	821,072
2009-2010	2.450%	570,000	124,376	124,376	818,752
2010-2011	2.700%	580,000	117,394	117,394	814,788
2011-2012	3.000%	595,000	109,564	109,564	814,128
2012-2013	3.150%	605,000	100,639	100,639	806,278
2013-2014	3.350%	610,000	91,110	91,110	792,220
2014-2015	3.500%	620,000	80,892	80,893	781,785
2015-2016	3.650%	615,000	70,043	70,042	755,085
2016-2017	3.800%	600,000	58,819	58,819	717,638
2017-2018	4.000%	590,000	47,419	47,419	684,838
2018-2019	4.000%	595,000	35,619	35,619	666,238
2019-2020	4.125%	585,000	23,719	23,719	632,438
2020-2021	4.125%	565,000	11,653	11,653	588,306
<u>TOTAL</u>		<u>\$8,790,000</u>	<u>\$1,279,405</u>	<u>\$1,279,405</u>	<u>\$11,348,810</u>



Lewis & Knopf, CPAs, P.C.

Serving You with Trust and Integrity

August 9, 2006

To the Board of Education of
Sandusky Community Schools

In planning and performing our audit of the financial statements of Sandusky Community Schools for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect Sandusky Community Schools' ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

1968 PA 2, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2006, Sandusky Community Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

FUTURE ISSUES

1. MDE Changes Enforcement of Budgeting Act

The Michigan Department of Education (MDE) recently notified all Michigan School Districts that it was implementing changes in its enforcement of the Uniform Budgeting and Accounting Act. From their perspective, MDE is making this policy change in an effort to elevate awareness of the importance of proper budgeting and the need for district procedures to be in place to detect budget violations. MDE has not aggressively pursued these violations in past years, but has stated their intention to change that policy retroactively to the 2004-05 fiscal year. For that year, the Department has indicated that they are only focusing on the General Fund and will only act upon *Total Expenditures* violations that exceed 1% of the Total Expenditures budget and *Total Other Financing Uses* violations that exceed 1% of the Total Other Financing Uses budget.

Currently identified violations of the Act include, but are not limited to:

- Incurring expenditures in excess of the appropriation approved by the school board (overspending your budget)
- Ending the fiscal year with a deficit (negative fund balance), and



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FUTURE ISSUES (Continued)

- Adopting a budget that, when implemented, would put the district in a deficit.
- The Department is also currently considering that a violation of the Act also includes the situation where the district did not achieve their full revenue budget and, at the same time, depleted the district fund balance beyond what had been approved by the school board.

Amending your budget before June 30 of each year is the main way to avoid receiving a violation letter from the Department.

2. GASB Statement No. 45

GASB Statement No. 45 was issued in June 2004 and is effective prospectively in three phases in periods beginning after December 15, 2006. For Sandusky Community Schools, the effective implementation date must begin by June 30, 2008. OPEB are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they retire. They include all postemployment healthcare benefits. They also include any other type of benefits that are provided separately from a pension plan, such as life insurance, legal services, and any other benefits that the employer may provide. OPEB exclude any non-healthcare benefits provided through a pension plan.

The basic premise of GASB No. 45 is that OPEB are earned and should be recognized when the employee provides services, just like wages or salaries paid at the end of each pay period. But because these benefits cannot be used until the employee is no longer working, they are not paid in cash until a date that may extend well into the future.

The District may wish to begin gathering the nonfinancial information needed to generate their first actuarial valuation of OPEB. Information that will be requested by actuaries will be similar to that used for pension benefit calculations and includes:

- * Listing of all benefits provided by the OPEB plan—as the terms are understood by the employer and the plan members. (This would be a good time to work with employees to convert unwritten/understood benefits to written policy.)
- * Past OPEB claims experience for the covered group—as far back as needed to create a “credible” experience database or as far back as data is available. (Actuaries will need to use a database for a comparable entity if the government is not able to generate its own database.)
- * Census information about individual active and inactive plan participants, including age, sex, length of service, and so forth.

3. Cash Management of Federal Grants

The advance provisions of the Cash Management Improvement Act (CMIA) requires that advances be limited to three days cash needs. The Michigan Department of Education will no longer allow thirty day cash advances for ongoing programs.



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A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Sandusky Community Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

A handwritten signature in cursive script that reads "Lewis & Knopf, P.C.".

LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS